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Tags: knnp, mnuc, parm, efin, etrd, econ, prel, ir, eu, gm  
Subject: iran - german finance ministry supports listing  
bank melli, but remains skeptical

Ref: a. State 5584  
b. State 14230  
c. Dusseldorf 3  
d. 07 <> 2256 and previous

Classified By: EMIN Robert A. Pollard for reasons  
1.4 (b) and (d).

11. (S) SUMMARY: German Finance Ministry officials continue to express doubt that listing Bank Melli as part of EU autonomous <> against Iran will have a significant practical effect on Iran's proliferation-related activity. Nonetheless, they acknowledge the importance of sending a strong political message to Iran. Finance Ministry officials expressed concern that designating Bank Melli might somehow trigger a new liquidity crisis in Germany, especially if the credit crunch and sub-prime crisis persist -- a prospect that we consider to be highly remote. German officials insist they are closely monitoring the activities of the Hamburg-based, Iranian-owned European-Iranian Commercial Bank (EIHB). In early February, the Finance Ministry, Federal Financial Supervisory Authority (BaFin), and German banking associations circulated "concrete" guidance stating that the October 2007 FATF statement legally obligates German banks to implement stringent due diligence procedures for all business involving Iranian customers or Iran-related payments/financing. END SUMMARY.

Ministry reluctantly supports listing melli ...  
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12. (S) Finance Ministry Director for Terrorism Finance and Money Laundering Michael Findeisen told EconOff and PolOff (Iran Watcher) February 19 that the Finance Ministry and Economics Ministry had both tried (unsuccessfully) to convince the Chancellery and MFA not to support the inclusion of Bank Melli in a post-UNSCR round of EU autonomous <>. Findeisen said the fact that the Chancellery and MFA ultimately won out is an indication that Germany views containing Iran's nuclear weapons program as a foreign policy priority that trumps economic concerns. The German decision to support listing Bank Melli is motivated by a desire to put political <> on Iran, notwithstanding the Finance Ministry's assessment that designating Bank Melli will have little effect on the financing of Iran's nuclear weapons and missile programs. Findeisen explained that Bank Melli's German branch does not play a major role in financial transfers between Germany and Iran. He expressed appreciation for ref A information providing additional detail on Bank Melli's involvement in Iranian proliferation-related activities.

... But concerned about liquidity problems  
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¶3. (S) Findeisen said German government economists and financial experts are concerned about the potential for liquidity problems following the announcement of EU autonomous <>, particularly since the EU's designation of Bank Melli will cover both new and existing contracts. (NOTE: We believe Findeisen exaggerated the danger of a liquidity problem; if the Finance Ministry really feared that action against Bank Melli could trigger a financial crisis, Finance Minister Steinbrueck himself would have weighed in. END NOTE.) Findeisen said deposits in Bank Melli's German branch total more than EUR 100 million (approx. USD 150 million). Even though most bank deposits are insured, the designation of Bank Melli could hurt German depositors, especially if the sub-prime crisis and credit crunch persist.

¶4. (S) One of the main reasons for concern, Findeisen said, is that a large share of Bank Melli depositors are small towns and local communities attracted by Bank Melli's high interest rates. Findeisen said German supervisors had not observed any shifting of funds, despite recent German press reports hinting that Bank Melli would be included among the EU designations. Indeed, Findeisen said, the number of Bank Melli depositors appears to be growing. Findeisen speculated that most of Bank Melli's depositors are "unpolitical persons," who do not follow international affairs closely.

Bank sepah - no active business in germany  
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¶5. (S) In response to a question, Findeisen said that Bank Sepah has "no active banking business" in Germany. Although most of Bank Sepah's employees were dismissed in the wake of UNSCR 1747, Findeisen said, Sepah's managers will not close the branch because they remain optimistic about the prospects

for a solution. They are willing to withstand significant, long-term losses because they do not want to lose their banking license or return to Iran. Most of Bank Sepah's managers have been in Germany for 20-30 years and are, as a result, "fully integrated." Findeisen described Bank Melli and Bank Sepah managers as "realistic, non-political" pragmatists, who are sympathetic to the Bazaaris and staunchly critical of Ahmadinejad.

German authorities continue to monitor eihb  
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¶6. (S) Findeisen dismissed press reports claiming that the Hamburg-based European-Iranian Commercial Bank (Europaeische-Iranische Handelsbank AG, or EIHB) -- a German bank wholly owned by Iranian interests, including Bank Mellat -- plans to open a branch office in Tehran. Findeisen said he had heard that EIHB plans to transform its representative office in Kish Island into a branch office, but said the bank had not yet made a decision on whether to open a branch in Tehran. Findeisen said German bank supervisors and Federal Financial Supervisory Authority (BaFin) regulators remain in "permanent contact" with EIHB officials, conducting regular on-site inspections and "looking deeply" into the bank's activities, far more than BaFin does with other foreign banks (see also ref C).

¶7. (S) Although EIHB is owned by Iranian banks, with the bulk of its capital coming from Iran, EIHB is subject to German licensing requirements and German banking law. In addition, Findeisen said, EIHB's board members are all German citizens or permanent residents and, as such, motivated to be "very transparent" with German financial regulators. Findeisen expressed hope that the United States would not extend <> to EIHB, pointing out that German citizens have hundreds of millions of euros on deposit with EIHB.

Fatf - ministry gives banks "concrete" guidance  
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¶8. (C) Turning to the October 2007 Financial Action Task Force (FATF) statement warning of the risks of doing business

with Iranian banks, Findeisen said the Finance Ministry had convinced the German banking associations to provide concrete, precise guidance on the subject to their member banks. The text, which was negotiated among the Finance Ministry, BaFin, and banking associations and finalized in early February, is intended to provide an explanation of the FATF's "political decision," i.e., to inform German banks that they are legally obligated -- in line with FATF guidance and UNSCRs 1737 and 1747 -- to implement stringent due diligence procedures for all business involving Iranian customers or Iran-related payments/financing.

19. (C) From the Finance Ministry's perspective, Findeisen said, it was not sufficient simply to explain the FATF statement to German banks, most of which are medium-sized credit unions and banks and thus "too distant" from the FATF. Findeisen said he was surprised that neither the German banking associations nor their member banks opposed the Finance Ministry initiative. He speculated that German banks were motivated in large part by a desire to maintain access to the U.S. financial system. Findeisen agreed the FATF statement seems to be having a similar effect in other countries, including the UAE.

Timken jr